

# Kraft Amended Economic Development Agreement Audit

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# **Table of Contents**

	Page
Authorization	1
Objective	1
Scope and Methodology	1
Background	2
Overall Conclusion	2
Exhibit A - Sampling Methodology	3

#### Authorization

We have conducted an audit of the Kraft Retention Agreement. This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

# **Objective**

The objective of this audit is to ensure compliance with the Amended Economic Development Agreement (Amended Agreement) regarding Kraft's employment of 215 full-time employees between September 1, 2012 and March 31, 2013 and 235 full-time employees between April 1, 2013 and August 31, 2013.

## **Scope and Methodology**

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit period covered September 1, 2012 through August 31, 2013.

To adequately address the audit objective, we:

- Reviewed the Amended Agreement for compliance requirements.
- Requested and received the required Certificate of Compliance certifying that the company employed at least 215 full-time employees in the period from September 1, 2012 through March 31, 2013 and 235 full-time employees in the period from March 31, 2013 through August 31, 2013.
- Obtained a list of employees from Kraft to evaluate the number of full-time employees required during the audit period.
- Determined the number of hours required to define full-time employment based on the Texas Enterprise Zone Act (Government Code, Title 10, Subtitle G, Chapter 2303, Subchapter F) which states qualified businesses will provide at least 1,820 hours of annual employment for each employee. (1)
- Developed an interval sample to verify the number of full-time employees throughout the periods (See Exhibit A – Sampling Methodology).
- Obtained and reviewed payroll reports from Kraft.
- Personally met a sample of Kraft employees to ensure there were no fictitious employees and verified the reliability of data provided by Kraft (See Exhibit A – Sampling Methodology).
- Obtained and reviewed time card reports to ensure compliance with the agreement.

We were unable to verify the reliability of computer generated data because we did not have access to Kraft's payroll systems or supporting evidence. However, we did ensure that we met a number of employees personally.

#### Source:

 Texas Enterprise Zone Act http://www.statutes.legis.state.tx.us/Docs/GV/htm/GV.2303.htm

# **Background**



Kraft Food Groups, Inc. (NASDAQ: KRFT) offers a tasty portfolio of brands that people love and is North America's 4<sup>th</sup> largest consumer of packaged food and beverage company with revenues of approximately \$18 billion. <sup>(1)</sup> The company was launched as a public and independent company on October 1, 2012 and markets products such as beverages, cheese, refrigerated meals and other grocery categories in the United States and Canada. <sup>(1)</sup> The company employees approximately 23,000 individuals and is headquartered in Northfield, IL. There are 39 manufacturing facilities and three research and development centers across the country. <sup>(1)</sup> The company's portfolio includes 27 brands with more than \$100 million in annual sales. <sup>(1)</sup> In addition, 98% of North American and 99% of Canadian households choose Kraft for their pantries or refrigerators. The company also states that 80% of its sales are in categories where they hold the #1 or #2 market position. <sup>(1)</sup>

#### Source:

1. Kraft Foods Groups, Inc. Investor Center - http://ir.kraftfoodsgroup.com/index.cfm

## **Overall Conclusion**

The Kraft Manufacturing facility in Garland was immensely cooperative with our requests. Based on the information provided and reviewed, we believe this audit provides a reasonable assurance that the company is in compliance with the Amended Economic Development Agreement dated February 4, 2013.

#### Exhibit A

# **Sampling Methodology**

# **Full-Time Employment:**

We obtained from Kraft, a list of full-time employees who worked between September 1, 2012 and August 31, 2013. The list consisted of 267 employees. Due to the fact that 25 of these individuals were terminated during the audit period, we eliminated them from our test. We then segregated the other 242 employees into two categories, Hourly and Salaried. We used the interval sampling methodology and selected 23 individuals from the Hourly group and 4 from the Salaried group to examine their payroll records. We sorted both lists by last name, then selected a starting number by using a random number generator, and selected every 8th record from the Hourly and every 7th from the Salaried list for testing. In addition, we randomly selected 4 Hourly employees and 2 Salaried employees. Each sampling method was used to ensure that each employee had an equal opportunity for selection. Our review of 27 Hourly employees and 6 Salaried employee records provided a reasonable assurance that these individuals were full time employees of Kraft.

# **Fictitious Employees:**

On October 10, 2013, Internal Audit made a site visit to the Kraft plant located in Garland, to verify employee existence. We randomly selected 31 employees from the morning shift schedule, met with each one of them and verified their identity by reviewing their employment identification card or driver's license. We also ensured that all of these individuals were listed on the employment report provided by Kraft. Our verification revealed no exceptions.